

Annual Report 2001



protherics

Highlights

- Computer-aided Molecular Design business sold in July 2001 to Tularik for an approximate valuation (at 3 August 2001) of £6.3m in shares
- CroFab™ received FDA approval - launched in US market for spring 2001 strikebite season - generated £2.2m in revenue in first five months
- High blood pressure vaccine progressed to Phase II trials following encouraging results in initial human trials
- DigiFab™ under review by FDA with review expected to be completed in the autumn
- Revenue increased to £4.2m from £1.6m due to launch of CroFab™ in the US
- Loss before tax cut by 56% to £6.7m with administration expenses down 22% to £4.8m
- Cash balance of £3.2m at 31 March 2001 will be enhanced by the realisation of the CAMD sale proceeds

The sale of CAMD completed the reorganisation of Protherics. It is now a focused immunotherapeutics business with reduced costs, a stronger financial base and a good product pipeline. CroFab™ marked our first FDA product approval. We are optimistic that we will have our second product approved by the autumn this year - a real achievement for a company of this size.



**THE NEW PRESIDENT AND CEO
MARK H. LEVINE
REPLACES JAMES R.
PROKOPENKO**



Chairman's Letter

In this Annual Letter, following the letter of Directors and
Stockholders, we have outlined our corporate strategy,
operating resources, our responsibilities of management and others. In
our Stockholders' Summary section, we hope you will understand our
role, products, business philosophy, our launched and
planned products, our future, the financials and
the challenges ahead.

Directors, Officers and
the management team of our company are dedicated
to our shareholders. We are committed to the growth of Proteostat
and to maintaining our position as a leader in the pharmaceutical
industry. We believe that our success will be based on our
ability to develop and market products that are safe and effective.

Proteostat's manufacturing plant is FDA and NJC approved.
Our facilities are a proven manufacturing site, and our
efforts going forward are focused on reducing our cost of
goods as we expand our production. Our earlier stage pipeline
products are now at the manufacturing capability, thus
expanding our technology tools.

A vaccine for high blood pressure (angiotensin receptor blocker)
In November 2006, we announced the results of our first
trial in non-smoker smokers for high blood pressure.
Unusually at this very late, an off-the-book product
was seen in healthy volunteers. These very encouraging
early results suggest good for this unique product. High blood
pressure represents the largest single pharmaceutical
market, valued in excess of \$50 billion per annum.

FDA approval and launch
Our product was approved by the US Food and Drug
Administration (FDA) in October 2006 and launched in the
USG, North America, Japan, France, Italy, Mexico, Spain, Italy, Germany,
Portugal, Australia, New Zealand, and the United Kingdom.
We are currently seeking regulatory approvals in Canada,
Australia, and the European Union.

The first product to be launched in the United States
was our product, Digi-Pro®. A voice driven telemetry
product. We believe that this agreement, given the
world's foremost diagnostic companies, will rapidly expand
the utilization of this new product around the globe.

For the year just completed, we achieved two

product approvals in the US marketplace within a year
of product development. This demonstrates the strength of Proteostat's
culture and regulatory capability in the world's largest
pharmaceutical market.

Through our strategic alliance with the University of Michigan,
Michigan Medicine, we have developed a unique
academic alliance. Michigan Medicine has agreed to
partner with Proteostat to develop and commercialize
products for the treatment of heart failure and hypertension.
Michigan Medicine has agreed to provide Proteostat
with access to its clinical trial sites, its medical expertise
and its academic resources.

Proteostat's current focus is to develop our
existing products and to develop our pipeline products.
We are also investigating the use of our products
in other indications. All of these additional opportunities
have been generated through our strategic alliances
and partnerships with major pharmaceutical companies.

We are also involved in the development of our
existing products. Our first product, Digi-Pro®
has been granted non-US rights.

Our second product, Digi-Pro® is under active review by
the FDA. The review process should be completed by the
summer of this year. We expect to add another two

products to our product line in the next few years.
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Chief Executive Officer's Review (continued)

Product Portfolio - Human Pharmaceuticals

Product	Principal uses	Status	Licensee/partner	Product development
PRODUCTS LAUNCHED				
CroFab™ antivenin	Rattlesnake	Approved by FDA October 2000 - Launched Q1 calendar year 2001	Altana (US)	Global registration at partner plus
ViperTab™ antivenin	Common adder	On market on named patient basis	Swedish Orphan (Scandinavia)	Expansion of sales to European Union
PRODUCTS UNDER REGULATORY REVIEW				
DigFab™	Reversal of digoxin toxicity	Product licence application submitted in US	Mitigated by Altana in US, Sweden Orphan (Scandinavia), F.H. Gossling (Australia/SE Asia)	FDA review to be completed Q3 calendar year 2001, Launch late 2001
PRODUCTS IN CLINICAL TRIALS				
Angiotensin Immunotherapeutic	Hypertension	Phase II	To be determined	Phase II trial - Phase III trial - late 2001
GnRH Human Vaccine	Prostate cancer	Phase II	Alt. Laboratories	Monitoring of results of a programme against prostate cancer
CytoFab™	Treatment of sepsis	Phase Iib	To be determined	Agreement with strategic partner
PRODUCTS IN RESEARCH				
Anti-metastasis immunotherapeutic	Cancer therapy	Research/proof of principle	n/a	Proof of principle in cancer model
Anti-nephropathy immunotherapeutic	Kidney failure	Research	n/a	Proof of principle in animal subjects
OTHER PRODUCTS				
Bovine Spongiform Encephalopathy test (BSE) Diagnostic Test	Detection of BSE in carcasses	Launched	Eli Lilly	Eli Lilly's marketing agreement extends commercial opportunity
GnRH Animal Vaccine	Animal castration	Phase II	Janssen Animal Health	Ongoing development under review with partner



CroFab™, the rattlesnake antivenom, is a major opportunity for revenue growth with an estimated market of \$40 million plus.



Portfolio Review - Marketed products

CroFab™

CroFab™ was approved by the FDA last autumn and launched by our partner Altana Inc. ("Altana") in time for the spring snakebite "season" this year. The product has been extremely well received, meeting a need by physicians for a safe and effective therapy. We believe that the safety profile of CroFab™ will enable us to expand the market for this product, treating more patients earlier following a bite than has been the practice with existing treatment. We estimate this market to be in excess of \$40 million. CroFab™'s early success bodes well for the future, and we are making the necessary capital investment in our Welsh facility to meet expected market demand and lower our cost of goods.

ViperaTab®

ViperaTab® is now well established in Scandinavia as the treatment of choice for the management of European Adder (V. berus) bites. Sold on a named patient basis, we intend to broaden ViperaTab® use into the European Union for the management of other species of adder bites.

Products under Regulatory Review

DigiFab™

DigiFab™ is a treatment for digoxin overdose. Digoxin is widely prescribed for the treatment of cardiac conditions. It has a narrow therapeutic range and the drug can cause life-threatening toxicity when the range is exceeded. Protherics is now in the final stages of regulatory review with the FDA, with an approval targeted for the third quarter of 2001, and launch in the US planned by the end of this year. There is one other similar product on the market in the US, which represents the major part of the global market.

Protherics will market this niche product in the US through our partner, Altana. We believe that with a production cost advantage we will be able to make inroads into the \$20 million US market opportunity. DigiFab™ is a significant product for Protherics, spreading our fixed manufacturing costs across a second product and thereby improving our margins.

Products in Clinical Trials

Angiotensin Immunotherapeutic

Angiotensin II is a peptide hormone which plays an important role in the control of blood pressure. It is formed from a slightly larger peptide, angiotensin I, by the action of an enzyme, the angiotensin converting enzyme ("ACE"). Drugs that prevent the action of this enzyme (ACE inhibitors) were discovered in the late 1970's and have become market leaders in the treatment of high blood pressure and heart failure. More recently, drugs that block the action of angiotensin II have been developed and marketed and these appear to be as effective as ACE inhibitors in those indications. A number of treatments exist for the control of high blood pressure, including those which target angiotensin. However, these treatments require the patient to take tablets on a daily basis and the failure to do so is one of the major reasons for the poor control of blood pressure.

CroFab™ has been extremely well received, meeting a need by physicians for a safe and effective therapy.

severely affected cases. However, a large amount of Fab fragments is required to treat a patient with TriFab™ and, thus, the investment in manufacturing scale up required is too great to make this project commercially viable.

Products in Research

Two new vaccine research projects have been initiated. The first is aimed at developing a vaccine to combat the metastatic spread of cancer. The target molecule is well established and its mechanism of action validated in tumour spread. Inhibition of this molecule should therefore be effective in slowing the spread of cancer.

Studies on this vaccine have demonstrated high antibody levels in rats, and proof of concept studies are in progress in a model of cancer spread, with results expected by the end of the calendar year.

The second is to continue research on an earlier stage. The target molecule has been implicated in kidney failure, and current studies are designed to investigate the antibody response to urinary tract reconstructive surgery. This project is currently in pre-clinical trials.

BSE diagnostic test

During this past year we have seen increasing concern about the health of livestock across Europe. The recent foot and mouth crisis in the UK has been accompanied by continued concern with respect to BSE, commonly known as "mad cow disease". Protherics has licensed its intellectual property in transmissible spongiform encephalopathy, or "TSE", diagnosis to Enfer for application in the worldwide development and marketing of a test to determine whether beef carcasses are infected by BSE. Enfer has developed a high throughput test and established a dedicated laboratory and logistic support to provide a testing service on beef carcasses in the slaughterhouse, prior to release of the carcasses into the food chain.

In March 2001, Enfer announced an agreement with Abbott, whereby Abbott will market the Enfer test in all territories outside Ireland. This deal will allow one of the world's premium diagnostic companies, Enfer, to compete in the broader European markets. Currently, all animals over 30 months entering the food chain are to

be tested, with an estimated 30 million carcasses per year being slaughtered in Europe. The Protherics Enfer test is the quickest test of the three tests validated by the European Commission. Protherics will retain 8% of Enfer's net sales revenue from Abbott.

GnRH Animal Vaccine

The GnRH hormone has the same structure and overall function in humans and animals and, therefore, the same approach to block its effects is applicable to both human and animal applications. In animal health and husbandry, the potential applications encompass fertility and behaviour control, and improvement in meat quality.

Protherics has entered into a licensing agreement with Janssen to develop a GnRH Animal Vaccine. Janssen is responsible for the manufacture of both the active ingredient and any formulated vaccines. Janssen has studied the GnRH Animal Vaccine across a range of target species, in particular for lifetime castration. The development program has already started for GnRH in cats. The program is under commercial review by our partner, Janssen.

PoLoNaTab and EchiTab

Protherics has succeeded in a technology transfer, ownership by itself, products to a third party. This enables the company to maintain its core business platform in the USA and UK.

Conclusion

The excitement amongst physicians following the launch of our first product, CroFab™, has been extremely encouraging. Taking CroFab™ from concept to approval is a significant achievement which, together with DigiFab™, will provide a solid foundation from which to build a profitable biotechnology franchise. The sale of our CAMD division will provide working capital for the near to medium term and, as importantly, focuses our research and commercial efforts.

I thank you, our shareholders, for your patience and support. We have an overriding goal - value for our shareholders - and believe that the achievements of the past year provide an excellent platform for the coming year.



Andrew J. Heath

Andrew J. Heath
Chief Executive Officer

Financial Review

Turnover for the year increased to £4.2 million from £1.6 million in the prior year, following the commencement of CroFab™ supply in November 2000. The loss before tax for the year decreased to £6.7 million from £15.5 million (which included £1.9 million relating to merger costs).

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Research and development expenditure has decreased to £1.9 million from £9.0 million, as a result of the significant rationalisation referred to above, and the FDA approval of CroFab™.

This approval also resulted in the re-instatement of stock amounting to £1.3 million which was previously charged as a research and development cost. With CroFab™ now being

manufactured and sold commercially, cost of goods sold has increased to £4.0 million from £0.1 million in the prior year.

Following the issue of £5.2 million (net) convertible debentures at the beginning of the financial year, and a share placement raising £3.0 million (net) at the end of January 2001, the Group finished the year with cash reserves of £3.2 million. Cash outflow from operating activities reduced to £6.0 million from £12.7 million in the prior year. This underlines our commitment to reducing cash burn and creating a strong and stable biopharmaceutical business.

Existing cash reserves, together with expected product revenues and the proceeds from the sale of the shares in Tulank, received from the sale of our CAMD operation, should provide sufficient working capital for the foreseeable future.



Barry M Riley

Barry M Riley
Finance Director